

Message Text

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ACTION NEA-11

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 SOE-02 AID-05 CEA-01 COME-00 EB-08 DOE-15
INT-05 OMB-01 OES-07 STR-07 TRSE-00 ACDA-12 /140 W
-----005914 030935Z /11

R 030826Z MAY 78
FM USINT BAGHDAD
TO SECSTATE WASHDC 6112
INFO USDOC WASHDC
AMEMBASSY ATHENS
AMEMBASSY KUWAIT
AMEMBASSY LONDON

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ATHENS FOR RTDO

E.O. 11652: N/A
TAGS: ETRD, BTIO, ENRG, IZ
SUBJ: U.S. PARTICIPATION IN THE DEVELOPMENT OF THE IRAQI OIL
SECTOR

REF: (A) BAGHDAD 0849 (NOTAL), (B) BAGHDAD 0827 (NOTAL)

1. SUMMARY. IN APRIL 30 INTERVIEW WITH USINT OFFICER,
PRESIDENT OF IRAQI STATE ORGANIZATION FOR OIL PROJECTS (SCCOP)
SAID BOYCOTT DIFFERENCES POSE PRINCIPAL PROBLEM FOR
PARTICIPATION OF U.S. FIRMS IN DEVELOPMENT OF IRAQI OIL SECTOR
AND SPECIFICALLY COST THE U.S. FIRM PROCON THE ENGINEERING
CONTRACT FOR THE NORTHERN GAS PROJECT. HE SUGGESTED VARYING
INTERPRETATIONS AMONG U.S. COMPANIES OF EAA REGULATIONS MAY
EXPLAIN WHY SCCOP HAS BOYCOTT PROBLEMS WITH SOME U.S. FIRMS BUT
NOT WITH OTHERS. USINT BELIEVES ANOTHER FACTOR MAY BE SCCOP'S
WAIVING OF BOYCOTT REQUIREMENTS IN CERTAIN CASES. END SUMMARY.
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2. USINT OFFICER APRIL 30 CALLED ON ESSAM ABDUL RAHIM CHALIBI,
PRESIDENT OF SCCOP, TO DISCUSS U.S. PARTICIPATION IN THE DEVELOP-
MENT OF THE IRAQI OIL SECTOR AND PROBE AS TO WHY U.S. FIRMS HAD
LOST OUT IN THE BIDDING FOR THE DESIGN AND CONSTRUCTION
MANAGEMENT CONTRACTS OF THE NORTHERN AND SOUTHERN GAS PROJECTS
AND THE BAIJI REFINERY.

3. CHALIBI SAID SCCOP WAS EAGER TO DEAL WITH U.S. COMPANIES BUT BOYCOTT PROBLEMS PRESENTED A MAJOR OBSTACLE IN MANY CASES. IN REGARD TO THE NORTHERN GAS PROJECT, SCCOP HAD PREFERRED THE U.S. COMPANY PROCON BUT HAD TO SETTLE FOR SECOND BEST BECAUSE OF BOYCOTT DIFFICULTIES. THOUGH THE AWARD WENT TO TOYO ENGINEERING COMPANY OF JAPAN, THE CONTRACT NONETHELESS SPECIFIED TWO U.S. SUBCONTRACTORS, THE LUMMUS COMPANY (OF BLOOMFIELD, N.J.) AND CREST ENGINEERING, INCORPORATED (OF TULSA, OKLAHOMA) FOR CERTAIN PARTS OF THE DESIGN WORK.

4. IN REGARD TO THE BAIJI REFINERY, CHALIBI SAID THE U.S. FIRM PULLMAN-KELLOGG HAD LOST OUT TO SNAM PROGETTI OF ITALY MAINLY ON PRICE AND THAT BOYCOTT PROBLEMS HAD NOT BEEN AN IMPORTANT ISSUE. AS WITH THE NORTHERN GAS PROJECT, THERE WOULD BE U.S. PARTICIPATION BECAUSE SCCOP HAD SIGNED A LICENSING AGREEMENT WITH UNITED OIL PRODUCTS (UOP) FOR THE REFINERY'S FIVE PROCESSING UNITS.

5. NO U.S. FIRMS WERE IN FINAL CONTENTION FOR THE SOUTHERN GAS PROJECT, ALSO AWARDED TO SNAM-PROGETTI. BECHTEL HAD BEEN INVITED BUT DECLINED TO BID, AND BROWN AND ROOT HAD SUBMITTED AN OFFER THAT DID NOT MEET SCCOP'S SPECIFICATIONS.

6. CHALIBI SAID SCCOP DOES NOT INTEND TO UNDERTAKE ANY OTHER MAJOR PROJECTS AT LEAST UNTIL 1980 AND THAT THESE THREE ALONE LIMITED OFFICIAL USE

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ARE LIKELY TO OVERWHELM HIS ORGANIZATION'S CAPABILITIES BECAUSE THEY ARE SCHEDULED TO GO FORWARD SIMULTANEOUSLY. WITHIN THE NEXT FEW WEEKS, SCCOP WILL BE SENDING 10-20 ENGINEERS TO THE U.S. TO CONSULT WITH LUMMUS AND CREST AS WELL AS SENDING A LIKE NUMBER TO TOKYO AND MILAN FOR CONSULTATION WITH TOYO AND SNAM-PROGETTI. HE ANTICIPATES TENDER DOCUMENTS BEING AVAILABLE FOR FOREIGN CONTRACTORS BY THE END OF THE YEAR AND HOPES TO SIGN THE CONSTRUCTION CONTRACTS TWO OR THREE MONTHS LATER. THE PROJECTS WILL BE BROKEN UP INTO COMPONENTS, SOME OF WHICH SCCOP ITSELF PLANS TO CARRY OUT.

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7. IN CONCLUDING INTERVIEW, CHALIBI SAID THAT SCCOP WAS HAVING BOYCOTT PROBLEMS WITH MANY U.S. FIRMS, CITING IN PARTICULAR A COMPUTER COMPANY, WHICH HE REFUSED TO IDENTIFY. SCCOP, HE SAID, HAD NO CHOICE BUT TO ABIDE BY GOI BOYCOTT REGULATIONS AND THAT CONTINUED U.S. PARTICIPATION IN SCCOP PROJECTS WOULD DEPEND ON U.S. AND GOI AUTHORITIES RESOLVING BOYCOTT DIFFERENCES. HE SAID HE DID NOT UNDERSTAND EXACTLY WHY BOYCOTT PROBLEMS CROPPED UP IN SOME CASES BUT NOT IN OTHERS. CHALIBI EVADED ANSWERING USINT OFFICER'S QUESTION AS TO WHETHER SCCOP HAD REQUIRED THE SAME TYPE OF BOYCOTT CLAUSE FOR ALL U.S. COMPANIES AND ALTERNATIVELY SUGGESTED THAT DIFFERING UNDERSTANDINGS AMONG U.S. FIRMS AS TO WHAT THE EAA REGULATIONS PERMIT COULD BE A POSSIBLE EXPLANATION.

8. COMMENT. PULLMAN-KELLOGG REPRESENTATIVE, WHO CALLED AT USINT APRIL 26 ALSO SAID PRICE, NOT BOYCOTT, WAS THE MAJOR REASON HIS FIRM LOST THE CONTRACT. HE DID ADD, HOWEVER, THAT A WORKING-LEVEL SCCOP ENGINEER HAD INTIMATED THAT SCCOP WAS RELUCTANT TO SIGN WITH PULLMAN-KELLOGG FOR FEAR THAT U.S. LIMITED OFFICIAL USE

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BOYCOTT LEGISLATION WOULD CAUSE PROBLEMS AT A LATER DATE.

9. USINT BELIEVES CHALIBI'S EXPLANATION AS TO WHY SCCOP HAS BOYCOTT PROBLEMS WITH SOME U.S. COMPANIES BUT NOT OTHERS IS PLAUSIBLE BUT INCOMPLETE. ANOTHER SOURCE REPORTS THAT SCCOP SOUGHT NO BOYCOTT CLAUSE IN ITS LICENSING AGREEMENT FOR THE BAIJI REFINERY BECAUSE ONLY U.S. COMPANIES (UOP AND CHEVRON) COULD PROVIDE WHAT SCCOP WANTED. IN THE CASES OF PULLMAN-KELLOGG, CREST AND LUMMUS, THESE THREE COMPANIES HAVE HAD OR DO HAVE OTHER MAJOR CONTRACTS IN IRAQ; IN CONTRAST PROCON HAS NO SUCH

RECORD. SCCOP MAY HAVE WAIVED, FOR EXAMPLE, REQUIREMENT THAT THESE COMPANIES ANSWER STANDARD GOI BOYCOTT QUESTIONNAIRE ON THE BASIS OF PREVIOUS EXPERIENCE IN IRAQ; USINT UNDERSTANDS THAT THIS QUESTIONNAIRE, ALONG WITH BOYCOTT CLAUSES IN THE CONTRACT WAS A STICKING POINT IN PROCON'S NEGOTIATIONS WITH SCCOP. IN ADDITION, THERE HAVE BEEN OTHER CASES IN WHICH GOI AGENCIES HAVE DEMANDED TIGHT BOYCOTT CONDITIONS FOR PRIME CONTRACTORS BUT ONE OR LESS FORGOT ABOUT THEM FOR SUBCONTRACTORS. ACCORDING TO PROCON REPRESENTATIVE WHO VISITED USINT APRIL 11, CHALIBI OFFERED THIS SOLUTION TO PROCON SUGGESTING THAT SHELL TAKE THE LEADING ROLE BUT NEITHER SHELL NOR PROCON FOUND THIS ARRANGEMENT ACCEPTABLE.
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